

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /090 W  
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R 140647Z AUG 75  
FM AMEMBASSY TEHRAN  
TO SECSTATE WASHDC 2960  
INFO AMEMBASSY ABU DHABI  
AMEMBASSY DOHA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 7843

EO 11652: GDS  
TAGS: ENRG, EINV, IR  
SUBJ: NIOC OUTLINES NEW TERMS FOR JOINT-VENTURE OIL  
PRODUCERS

REF:(A) TEHRAN 6420;(B) TEHRAN 5063(ABU DHABI ONLY)

1. SUMMARY. IN AUGUST 4 MEETING WITH JOINT VENTURE FOREIGN PARTNERS, NIOC DIRECTOR OF INTERNATIONAL AFFAIRS PARVIZ MINA AND HIS STAFF SPELLED OUT CHANGES NIOC WANTS MADE IN JOINT VENTURE AGREEMENTS TO BRING THEM INTO GREATER HARMONY WITH NEW (1974) IRANIAN PETROLEUM ACT AND WITH RECENT OPEC DECISIONS ON PRICING. FOREIGN PARTNERS IN IPAC, SIRIP, LAPCO,

AND IMINOCO ALL ATTENDED. SUBSEQUENTLY GERHARD OF AMOCO (IPAC SHAREHOLDER) MET WITH NIOC MANAGER OF AFFILIATED COMPANY AFFAIRS BANIRIAH TO SEEK FURTHER CLARIFICATION OF NIOC POSITION, WHICH BASICALLY CALLS FOR FOREIGN PARTNERS TO CONTINUE TO OWN ONE HALF OF ASSETS AND WOULD ALLOW THEM TO LIFE CRUDE UP TO ONE HALF OF INSTALLED CAPACITY. FOREIGN PARTNERS WOULD  
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CONTINUE TO HAVE OBLIGATION TO SUPPLY ONE HALF OF CAPITAL EXPENDITURES AND IN RETURN WOULD BE ALLOWED DISCOUNTS OFF "OPEC MARKET PRICE" ON THEIR HALF OF CRUDE. DISCOUNTS WOULD BE DETERMINED BY INDIVIDUAL STUDY OF EACH PRODUCERS CIRCUMSTAN-

CES. FOLLOWING DETAILS ARE BASED ON AMOCO REPORT TO ITS HEAD OFFICE, WHICH DREWS ON AUGUST 4 MEETING AND SUBSEQUENT TALK WITH BANIRIAH. END SUMMARY.

2. MINA OPENED AUGUST 4 MEETING WITH NIOC JOINT VENTURE PARTNERS BY COMMENTING THAT NIOC HAS DELAYED RENEGOTIATION OF JOINT VENTURE AGREEMENTS BECAUSE GOI WANTED FIRST TO FIND SOME COMMON BASIS WITH OTHER PERSIAN GULF NATIONS FOR TREATMENT OF SMALLER PRODUCERS. NIOC NOW FEELS, HE SAID, THAT IT MUST GO AHEAD ON ITS OWN, TO SET ITS PARTNERS MIND AT EASE. NEVER, HE COMMENTED, HAVE NIOC FOREIGN PARTNERS HAD SERIOUS REASON FOR CONCERN. NIOC, HE SAID, WAS "SURPRISED, IN VIEW OF ITS OWN PAST PERFORMANCE AT CONCERN REPORTEDLY FELT BY SOME JOINT VENTURE PARTNERS'." (AMOCO'S GERHARD COMMENTED NEXT DAY TO BANIRIAH THAT SOME COMPANIES WERE CONCERNED PRECISELY BECAUSE OF NIOC'S PAST PERFORMANCE.) THE AIM OF OPEC'S PRICE RESOLUTION OF DECEMBER 1974 (WHICH IMPLEMENTED THE ABU DHABI FORMULA) WAS, SAID DR. MINA, TO "ELIMINATE OIL COMPANIES' EXCESS PROFITS, BUT TO LEAVE SUFFICIENT INCENTIVE FOR COMPANIES TO CONTINUE TO INVEST."

3. NIOC INTENDS, EXPLAINED DR. MINA, TO ESTABLISH A NEW RELATIONSHIP WITH JOINT VENTURE PARTNERS AS FOLLOWS:

A. JOINT STRUCTURE AGREEMENTS WILL CONTINUE WITH MODIFICATIONS ONLY AS NECESSARY "TO IMPLEMENT THE CHANGED RELATIONSHIP."

B. NIOC WILL REPLACE EXPATRIATES WITH COMPETENT IRANIANS IN MANAGEMENT POSITIONS AT NIOC'S SOLE JUDGEMENT. (EMBOFF COMMENTED AND GERHARD AGREED THAT THIS WAS MERE WAVE OF THE FLAG.)

C. LAPCO, IPAC, IMINOCO AND SIRIP WILL CONTINUE AS OPERATING COMPANIES EXCEPT THAT IN LONG TERM THERE WILL BE UNITIZATION OF OPERATIONS IF ECONOMIES CAN BE EFFECTED IN THIS WAY. NIOC IS NOT USING THIS TERM IN SAME TECHNICAL SENSE AS IN U.S., BUT RATHER MEANS COMBINING NEIGHBORING OPERATIONS INTO SINGLE MANAGEMENT STRUCTURES.)

D. NIOC DOES NOT INTEND TO RELIEVE THE SECOND PARTIES  
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(I.E. THE FOREIGN PARTNERS) OF THEIR FINANCIAL AND CAPITAL EXPENDITURE OBLIGATIONS IN THE AREAS OF EXPLOITATION AND DEVELOPMENT.

4. IFSCAL ARRANGEMENTS, SAID DR. MINA, WILL BE AS FOLLOWS: SIXTY-FIVE PERCENT TAX RATE AND 16.67 PERCENT ROYALTY RATE ARE UNACCEPTABLE BECAUSE THEY RESULT IN EXCESS PROFITS. (COMMENT: JOINT VENTURES HAVE CONTINUED PAYING ON THIS PRE-ABU DHABI BASIS.) THE FOLLOWING CONSIDERATIONS WILL APPLY:

A. EACH COMPANY WILL BE STUDIED INDIVIDUALLY.

B. THE BASIC PRINCIPLE WILL BE "REASONABLE RETURN ON INVESTMENT WITH NO EXCESS PROFITS".

C. RATE OF RETURN WILL VARY FROM COMPANY TO COMPANY.

D. EACH SECOND PARTY MAY OBTAIN A 50 PERCENT SHARE OF TOTAL CRUDE PRODUCTION CAPACITY AT A NET COST EQUAL TO OPEC DETERMINED PRICE OF THIS SPECIFIC CRUDE OIL LESS A DISCOUNT SO CALCULATED THAT A REASONABLE RETURN WILL RESULT.

5. PROCEDURE FOR DETERMINING APPLICABLE DISCOUNTS WILL BE AS FOLLOWS:

BANIRIAH AND MINA'S ASSISTANT DIRECTOR MODIR, WILL HEAD A COMMITTEE WHICH WILL MEET WITH EACH GROUP OF PARTNERS BEGINNING SHORTLY AFTER SEPTEMBER 1.(THESE ARE THE SAME COMPANIES THAT ATTENDED THE AUGUST 4 MEETING: AMOCO FOR IPAC; AGIP FOR SIRIP; ARCO, SUN, UNION, AND MRUPHY FOR LAPCO; AND PHILLIPS, AGIP, AND THE OIL AND NATURAL GAS COMMISSION FOR INDIA FOR IMINOCO.) EACHAGROUP, SAID DR. MINA, WILL MAKE A DETAILED PRESENTATION GIVING A BASIS AND A RATIONAL DEFENSE FOR THE MARGIN(DISCOUNT) THAT THEY WANT; THE COMMITTEE WILL THEN TAKE TWO TO THREE WEEKS TO STUDY THES PRESENTATIONS AND WILL MAKE RECOMMENDATIONS TO DR. MINA. (GERHARD'S COMMENT: APPARENTLY THIS WILL BE PERIOD OF LOW-LEVEL NEGOTIATIONS TO WORK OUT DETAILS.)

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /090 W

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R 140647Z AUG 75

FM AMEMBASSY TEHRAN

TO SECSTATE 2961

INFO AMEMBASSY ABU DHABI

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 7843

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6. BANIRIAH LATER EXPLAINED THAT THE 85/20 TAX/ROYALTY RATES OF THE ABU DHABI FORMULA ARE NOT SACRED, BUT ARE ONLY AN

"ESTIMATE" BECAUSE IT WAS THOUGHT THIS FORMULA WOULD ACCOMPLISH GOAL OF ELIMINATING EXCESS PROFIT BUT RETAINING INCENTIVE FOR INVESTMENT. THE IMPORTANT THING, BANIRIAH INDICATED, IS TO DEVELOP ACCEPTABLE MARGINS, AND THEN WORK BACKWARDS TO DETERMINE TAX AND ROYALTY RATES THAT WILL PRODUCE SUCH MARGINS.

7. GERHARD IS LEAVING AUGUST 17 FOR CHICAGO TO BEGIN PREPARATION OF AMOCO'S PRESENTATION, WHICH IS SCHEDULED FOR SEPTEMBER 3, AND THUS WILL APPARENTLY BE THE FIRST SUCH PRESENTATION. ON BALANCE GERHARD SEEMED NEITHER UNDULY OPTIMISTIC OR PESSIMISTIC. HE APPEARED ENCOURAGED BY SOME DETAILS OF NIOC PRESENTATION, SUCH AS STATEMENT THAT SECOND PARTIES COULD LIFT ON HALF OF TOTAL CAPACITY AT AGREED MARGIN. (UP CONFIDENTIAL

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TO PRESENT THERE HAVE BEEN PROBLEMS DUE TO REQUIREMENT THAT FOREIGN COMPANIES BUY PART OF CRUDE AT HIGHER "OVERLIFT" PRICES, OFTEN BECAUSE NIOC HAS FAILED TO SELL ITS SHARE OF CAPACITY.) A CRUNCH COULD COME, SAID GERHARD, IN NEGOTIATIONS ON SUCH ISSUES AS INVESTMENTS IN SECONDARY RECOVERY. HE HAS ALREADY TOLD NIOC OFFICIALS THAT WITH FOREIGN PARTNERS MAKING AS LITTLE AS 10 CENTS A BARREL VS \$10 A BARREL FOR NIOC, THE INCENTIVE FOR SUCH INVESTMENT IS ENTIRELY DIFFERENT FOR THE TWO SIDES, AMOCO, HE TOLD NIOC, WILL FORGO ALL SECONDARY RECOVERY OIL AND IN ANY CASE ABSOLUTELY WILL NOT COMMIT LARGE SUMS TO SECONDARY RECOVERY PROJECTS "IN VIEW OF NIOC'S PAST BEHAVIOR". IN AMOCO'S PRESENTATION TO NIOC ON "MARGIN" THEY WANTED, GERHARD SAID, AMOCO MAY PREPARE TWO CASES, ONE WITHOUT SECONDARY RECOVERY AND A HYPOTHETICAL ONE WITH SECONDARY RECOVERY. EMBOFF'S IMPRESSION WAS THAT GERHARD DOUBTED NIOC WOULD TAKE SERIOUSLY AMOCO'S PRESENTATION ON CASE INCLUDING SECONDARY RECOVERY.

8. IN GERHARD/BANIRIAH CONVERSATION, LATTER STATED THAT COMPANIES MUST PAY 85 PERCENT TAX AND 20 PERCENT ROYALTY FOR PERIOD 1 NOVEMBER 1974 TO EFFECTIVE DATE OF "NEW RELATIONSHIP". GERHARD REPLIED THAT AMOCO WILL NOT DO THIS AND SUGGESTED THAT IN THAT CASE, NOVEMBER 1, 1974, SHOULD BE EFFECTIVE DATE OF NEW RELATIONSHIP. BANIRIAH SAID HE FOUND THIS REASONABLE AND WOULD SUPPORT IT.

9. FOR ABU DHABI; PLEASE PASS ONLY GENERAL OUTLINES TO JAFAR OF CRESCENT PETROLEUM: THAT NIOC INTENDS TO DETERMINE "DISCOUNT" FROM "OPEC MARKET PRICE" TAILORMADE TO EACH OPERATION AND CALCULATED TO PROVIDE "INCENTIVE FOR INVESTMENT WITHOUT EXCESS PROFIT." FOREIGN PARTNERS WOULD BE ALLOWED TO LIFT HALF OF PRODUCTION CAPACITY AT DISCOUNTED PRICES RATHER THAN HALF OF ACTUAL PRODUCTION. TIMETABLE FOR DETERMINING THE DISCOUNTS SO ARRANGED THAT THE "DISCOUNTS" WILL NOT BE DETERMINED UNTIL AFTER SEPTEMBER OPEC MEETING.  
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